



START UP INDIA: A NEW STEP FOR ECONOMIC DEVELOPMENT

¹SACHIN

¹Independent Author

²PRAMJEET

²Independent Author

ABSTRACT

Startups have been the topic of discussion for the season over the last few years for the Indian markets. This has resulted into the appearance of a number of home grown companies across the country. This has been in line with the global trend dominating the space. Making big bets on Indian innovation has become a global point of interest. This was aimed at revolutionizing and accelerating the startup revolution in India, which is already witnessing strong traction and giving them an equal status and platform vis-a-vis the experienced entrepreneurs. However the road to success is not as smooth as it appears to be. The larger problems plaguing the businesses, such as transparent policy initiatives, lack of infrastructure, lack of knowledge and exposure, complications in doing business, etc. are at least now being identified as issues that need to be addressed. The framework and course of regulations need to be updated and adopted as per the times. The right policy matter announcements by lawmakers can be a push for the growth of startups. Certain simplifications have been made in context of regulatory formalities in favour of start up in the form of Start up mobile app and considering them under “white category” by the CPCB. To create awareness and building an entrepreneurial environment, a lot of emphasis should now be given to creating infrastructure for mentoring startups. Various stakeholders such as the government, corporate, educational institutions and others should join hands to build a better ecosystem for young people. To all young Indians who have the courage to enter an environment of risk, the Start up initiative is like their friend. Along with this to promote entrepreneurs to experiment with the new and innovative ideas there exist simple and easy policies. In times like these, pro-reforms announcements are required to provide the much needed impetus to the general business environment in the country in the start up space. Various centres for innovation and entrepreneurship will be setup to assist them financially and technologically.

Entrepreneurship promotion and innovation award to motivate and encourage young minds.

Keywords: *Start- Ups, Start –Up India Hub, Start-Up Mobile App, IBB, Start-Up Centres, AIM*

INTRODUCTION

First of all before coming on the details and explanation of the topic we must be aware of its history the reason of its existence and series of events. 'Start up India Stand up India' initiative was announced by Prime Minister Shri Narendra Modi in his address to the nation from the ramparts of Red Fort on 15th August, 2015 This initiative is one of the important steps in the series of initiatives taken by Government of India. Start up India Stand up India is designed to build a strong environment for rearing innovation and Start ups in the country that will foster sustainable economic growth and generate large scale employment opportunities.

Government of India announced the Action Plan that would deal with all aspects of this Start up environment on 16th January 2016. The Action Plan is based on the following 3 pillars:

- Simplification and Handholding
- Funding Support and Incentives
- Industry-Academia Partnership and incubation.

Definition

Start up means an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crores in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. Provided that such entity is not formed by splitting up, or reconstruction, of a business already in existence, also that an entity shall cease to be a Start up if its turnover for the previous financial years

has exceeded INR 25 crore or it has completed 5 years from the date of incorporation/ registration. Provided further that a Startup shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, setup for such purpose.

OBJECTIVES

- To reduce the regulatory burden on Start ups thereby allowing them to focus on their core business and keep compliance cost low.
- To create a single point of contact for the entire Startup ecosystem and enable knowledge exchange and access to funding.
- To serve as the single platform for Start ups for interacting with Government and Regulatory Institutions for all business needs and information exchange among various stakeholders.
- To promote awareness and adoption of IPRs by Start ups and facilitate them in protecting and commercializing the IPRs by providing access to high quality Intellectual Property services and resources, including fast-track examination of patent applications and rebate in fees.
- To provide an equal platform to Start ups (in the manufacturing sector) vis-à-vis the experienced entrepreneurs / companies in public procurement.
- To provide funding support for development and growth of innovation driven enterprises.
- To catalyse entrepreneurship by providing credit to innovators across all sections of society.

Details

Regulatory formalities require assent with various labour and environment laws which are time consuming and difficult in nature. Generally, new and small firms are unaware of these issues and are subjected to obtrusive actions by regulatory agencies. In order to make these laws and requirements for Startups friendly and flexible, certain simplifications are required in the regulatory regime. Accordingly, the process of conducting inspections is made more meaningful and simple. Start ups are allowed to self-certify assent (through the Startup mobile app) with labour and environment laws. In case of the labour laws, no inspections will be conducted for a period of 3 years. These may be inspected on receipt of credible and verifiable complaint of violation, filed in writing and approved by at least one level senior to the inspecting officer. And In case of environment laws, Start ups which fall under the 'white category' (as defined by the Central Pollution Control Board (CPCB)) would be able to self-certify assent and only random checks would be carried out in such cases.

Start-ups India hub: Assistant and guide

Young minds have the conviction to venture out on their own and a conducive ecosystem helps them watch their ideas come to life. In today's environment we have more and entrepreneurs than ever before and the movement is at the cusp of a revolution. However, many Startups do not reach their full potential due to limited guidance and access. The Government of India has taken various measures to improve the ease of doing business and has also built an exciting and enabling environment for these, with the launch of the "Start-ups India" movement.

The "Start-ups India Hub" is a key stakeholder and will: Work in a hub and spoke model and collaborate with Central & State governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions.

Assist through their lifecycle with specific focus on important aspects like obtaining financing, feasibility testing, business structuring advisory, enhancement of marketing skills, technology commercialization

and management evaluation. Organizing mentorship programs in collaboration with government organizations, incubation centres, educational institutions and private organizations who aspire to foster innovation. To all young Indians who have the courage to enter an environment of risk, the Start-ups India Hub is like their friend, mentor and guide to hold their hand and walk with them through this journey.

Technical infrastructure: Role of mobile technology

In order to commence operations, the start-ups require registration with relevant regulatory authorities. Delays or lack of clarity in registration process may lead to delays in establishment and operations thereby reducing the ability of the business to get bank loans, employ workers and generate incomes. Enabling registration process in an easy and timely manner can reduce this burden significantly.

Besides this these startups often suffer from the uncertainty regarding the exact regulatory requirements to set up their operations. In order to ensure that such information is readily available, it is hoped that a checklist of required licenses covering labour licensing, environmental clearances etc. be made available. Currently, the Start-ups ecosystem in India also lacks formal platform to connect and collaborate with other ecosystem partners.

Towards these efforts, the Government introduced a Mobile App to provide on-the-go accessibility for the following:

- Registering with relevant agencies of the Government. A simple form shall be made available for the same. The Mobile App shall have backend integration with Ministry of Corporate Affairs and Registrar of Firms for seamless information exchange and processing of the registration application
- Tracking the status of the registration application and anytime downloading of the registration certificate. A digital version of the final registration certificate shall be made available for downloading through the Mobile App
- Filing for compliances and obtaining information on various clearances/ approvals/ registrations required.
- The App shall provide a collaborative platform with a national network of stakeholders (including venture funds, incubators, academia, mentors etc.) of the Start-ups ecosystem to have discussions towards enhancing and bolstering the ecosystem
- Applying for various schemes being undertaken under the Start-ups India Action Plan
- The App shall be made available from April 01, 2016 on all leading mobile/ smart devices platforms. The Start-ups portal shall have similar functionalities (being offered through the mobile app) using a richer web-based User Interface.

Legal support and Patent

This scheme for Start-ups Intellectual Property Protection (SIPP) facilitates filing of Patents, Trademarks and Designs. In following ways:

- The patent application shall be fast-tracked for examination and disposal.
- For effective implementation of the scheme, a panel of “facilitators” is empanelled by the Controller General of Patents, Designs and Trademarks (CGPDTM), who also regulate their conduct and functions. They shall also provide assistance in filing and disposal of the IP applications related to patents, trademarks and designs under relevant Acts, including appearing on behalf of at hearings and contesting opposition, if any, by other parties, till final disposal of the IPR application.
- Under this scheme, the Central Government shall bear the entire fees of the facilitators for any number of patents, trademarks or designs that a Start-ups may file, and bear the cost of only the statutory fees payable.
- Rebate on filing of application shall be provided at 80% in filing of patents vis-a-vis other companies. This will help them pare costs in the crucial formative years.

Public Procurement of the product: Norms

Normally, whenever a tender is opened by a Government entity or by a PSU, very often the eligibility condition specifies either “prior experience” or “prior turnover”. Such a stipulation prohibits from participating in such tenders. At present, effective April 1, 2015 Central Government, State Government and PSUs have to mandatorily procure at least 20% from the Micro Small and Medium Enterprise (MSME). In order to promote, Government shall exempt (in the manufacturing sector)

from the criteria of “prior experience/ turnover” without any relaxation in quality standards or technical parameters. They will also have to demonstrate requisite capability to execute the project as per the requirements and should have their own manufacturing facility in India.

The Easy Exit Policy

In the event of a business failure, it is critical to reallocate capital and resources to more productive avenues and accordingly an easy and simple process has been proposed for to wind-up operations. This will promote entrepreneurs to experiment with new and innovative ideas, without having the fear of facing a complex and long-drawn exit process where their capital remain interminably stuck. The Insolvency and Bankruptcy Bill 2015 (“IBB”), tabled in the Lok Sabha in December 2015 has provisions for the fast track and / or voluntary closure of businesses. In terms of the IBB, with simple debt structures or those meeting such criteria as may be specified may be wound up within a period of 90 days from making of an application for winding up on a fast track basis. In such instances, an insolvency professional shall be appointed for the Start-ups, who shall be in charge of the company (the promoters and management shall no longer run the company) for liquidating its assets and paying its creditors within six months of such appointment. On appointment of the insolvency professional, the liquidator shall be responsible for the swift closure of the business, sale of assets and repayment of creditors in accordance with the distribution waterfall set out in the IBB. This process will respect the concept of limited liability.

Source of funds for Start Ups

One of the key challenges faced by Start ups in India is access to finance. Often Startups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high risk nature of Start ups wherein a significant percentage fail to take-off, hampers their investment attractiveness.

In order to provide funding support to Start ups, Government has set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e. INR 2,500 crore per year). The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Start-ups, but shall participate in the capital of SEBI registered Venture Funds.

Key features of the Fund of Funds are highlighted below:

- The Fund of Funds is managed by a Board with private professionals drawn from industry bodies, academia.
- Life Insurance Corporation (LIC) is co-investor in the Fund of Funds.
- The Fund of Funds is to contribute to a maximum of 50% of the stated daughter fund size. In order to be able to receive the contribution, the daughter fund have already raised the balance 50% or more of the stated fund size as the case may be. The Fund of Funds have representation on the governance structure/ board of the venture fund based on the contribution. In addition to this the credit guarantee comfort is also helping flow of Venture Debt from the formal Banking System.

Debt funding to is also perceived as high risk area and to encourage Banks and other Lenders to provide Venture Debts to, Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI is being envisaged with a budgetary Corpus of INR 500 crore per year for the next four years.

Taxation Exemptions

With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income-tax for a period of 3 years. This fiscal exemption shall facilitate growth of business and meet the working capital requirements during the initial years of operations. The exemption shall be available subject to non-distribution of dividend by the Startup. Under The Income Tax Act, 1961, where a Startup (company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as Income from Other Sources. In the context of Startups, where the idea is at a conceptualization or development stage, it is often difficult to determine the FMV of such shares. In majority of the cases, FMV is also significantly lower than the value at which the capital investment is made. This results into the tax being levied under section 56(2) (viib). Currently, investment by venture capital funds in Startups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Startups.

Role of private sector

India currently lacks availability of incubation facilities across various parts of the country. Incubation facilities typically include physical infrastructure, provision of mentorship support, access

tonetworks, access to market, etc. Of all these features, physical infrastructure requires large capital investments which can generally be facilitated by the Government.

Keeping this in mind Government is encouraging setting up of:

- 35 new incubators in existing institutions: Funding support of 40% (subject to a maximum of INR 10 crore) is provided by Central Government for establishment of new incubators for which 40% funding by the respective State Government and 20% funding by the private sector has been committed. The incubator is managed and operated by the private sector.
- 35 new private sector incubators: A grant of 50% (subject to a maximum of INR 10 crore) is provided by Central Government for incubators established by private sector in existing institutions.
- The funding for setting up of the incubators is provided by NITI Aayog as part of Atal Innovation Mission.

Participating departments and agencies for setting up of new incubators are:

- Department of Science and Technology, Department of Biotechnology,
- Department of Electronics and Information Technology, Ministry of Micro, Small and Medium Enterprises, Department of Higher Education, Department of Industrial Policy and Promotion and NITI Aayog.
- Each of the above mentioned departments/agencies would enter into a standard MoU with identified private sector players for creation of academia-industry tie-ups for nurturing innovations in academic institutions.
- The Government also set up 7 new Research Parks in institutes indicated below with an initial investment of INR 100 crore each.

Government will set up 31 centres (to provide facilities for over 1,200 new Startups) of innovation and entrepreneurship at national institutes, including:

Setting-up 13 Startup centres with Annual funding support of INR 50 lakhs (shared 50:50 by DST and MHRD) provided for three years for encouraging student driven Startups from the host institute.

Setting-up 18 Technology Business Incubators (TBIs) at NITs/IITs/IIMs etc. as per Funding model of DST with MHRD providing smooth approvals for TBI to have separate society and build up space.

Startup Centres		Technology Business Incubators	
RGIIM Shillong	NIT Goa	MANIT Bhopal	IISER Bhopal
NIT Delhi	NIT Agartala	NIT Warangal	NIT Rourkela
MNIT Allahabad	NIT Silchar	NIT Jalandhar	IIM Rohtak
VNIT Nagpur	IIT Bhubaneswar	MNIT Jaipur	IIT Mandi
IITDM Kancheepuram	NIT Patna	NIT Tiruchirappalli	IIM Udaipur
PDPM-IITDM Jabalpur	NIT Arunachal Pradesh	IISER Mohali	IIT Patna
ABVIITM Gwalior		NIT Calicut	IIT Roorkee
		IISER Thiruvananthapuram	IIM Raipur
		IIT Roper	IIM Kazhikode

CURRENT STATE OF STARTUPS IN INDIA

- 1) India is the third largest Startup hub.
- 2) Average age of startup founders is 28 years.
- 3) 9% of the total startup founders are women.
- 4) Total tech startups are expected to increase from 4300 in 2015 to 11500 in 2020.
- 5) Average number of new technology startups has moved from 480 in 2010 to 800 in 2015 expected to increase to 2000 in 2020.
- 6) Majority of startups and investors are from metro cities.
- 7) Approximately, 50% growth in share of female entrepreneurs in the last 12 months.
- 8) The number of Private Equity and Venture Capital firms has doubled in the last 12 months.

SCOPE OF GROWTH

A wide range of measures have been adopted by the Indian government that promotes entrepreneurship at the startup level and a number of initiatives have been taken to ensure that the startup businesses get appropriate support.

- a) **Make in India:-** A big initiative “Make in India” to promote the manufacturing sector by promoting companies to invest in the sector. The intent of the campaign is to attract foreign investments and encourage domestic companies to participate in the manufacturing thereby contributing to the growth story. The government is also taking various steps to build a favorable environment to do business in the country. For example, an online system for environment clearances, filling income tax returns and extension of validity of industrial licenses to three years have been put in place.
1. The government has increased the foreign Direct Investment limits for most of the sectors.
 2. Protection of the intellectual property rights of innovators and creators by upgrading infrastructure, and using state-of-the-art technology.
- b) **Standup India:-** A new campaign “Standup India” to help startups with bank funding and encourage entrepreneurship among the young Indians has been launched. Standup India: On 6th January 2016, the Union Cabinet has given approval to Standup India campaign which aimed at promoting entrepreneurship among women and scheduled castes and tribes. Some of the salient features include:
- Loans under the scheme would be given for greenfield projects in the non-farm sector.
 - Intention of the scheme is to facilitate at least two such projects per bank branch.
 - The scheme is expected to benefit at least 250,000 borrowers in 36 months from the launch of the Scheme. It also plans to ease out the existing regulatory regime for startups and is considering extending tax incentives to them. The Department of Industrial Policy and Promotion (DIPP) is currently working around a clear definition for startups to ensure that the regime is available to businesses.
- c) **Digital India:-** This is an initiative led by the Indian government to ensure that government services are made available to every citizen through online platform. This translates into a huge business opportunity for startups. E-Commerce companies in India are planning to break into India’s rural market as a part of the government’s Digital India initiative.
- d) **Startup Exchange:-** The SEBI announced a new set of listing norms for startups, including e-Commerce ventures, planning to raise funding from listing on stock exchanges. These new norms will provide relaxations in disclosure related requirements, takeover and Alternative Investment Fund regulations for IT, data analytics, intellectual property, bio-technology or nano-technology companies.
- e) **Financial assistance:-** In April 2015, the government launched Mudra Bank to boost the growth of small businesses and manufacturing units -- The newly formed Bank would provide a credit facility of up to INR 50,000 to small businesses, loan of up to INR 5 lakh to little bigger businesses and loan of up to INR 10 lakh to the MSME sector. The cabinet has approved the creation of a Credit Guarantee Fund for MUDRA loans. It is expected that the fund will guarantee loans of over INR 1, 00,000 crores to micro and small businesses in the first instance. Additionally, the government has set a target to provide a total loan of INR 1.22 Lakh cr. to promote new entrepreneurs and fund the unfunded businesses with the help of banks
- f) **The Atal Innovation Mission (AIM):-** Entrepreneurship promotion through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs Innovation promotion: to provide a platform where innovative ideas are generated. The main components proposed to be undertaken as part of the mission include:

Entrepreneurship promotion:- Establishment of sector specific Incubators including in PPP mode.

- Establishment of 500 Tinkering Labs.
- Pre-incubation training to potential entrepreneurs in various technology areas in collaboration with various academic institutions having expertise in the field.
- Seed funding to potentially successful and high growth.

Innovation promotion:- Institution of Innovation Awards (3 per state/UT) and 3 National level awards.

- Providing support to State Innovation Councils for awareness creation and organizing state level workshops/conferences.
- Launch of Grand Innovation Challenge Awards for finding ultra-low cost solutions to India's pressing and intractable problems.

CONCLUSION

Many businesses start with a dream, but it takes more than just a dream for them to grow into successful businesses—including the tenacity and the obstacles discussed above to overcome the many challenges facing startups today. Startups take time, effort, and energy to grow into profitable and sustainable businesses. Funding is a major concern for startups and small businesses as availability of finance is a very crucial factor. When the economy tanked, it made it harder to convince investors and banks alike to part with the cash that is essential for growth in the early days of a business. Credit today is tight, in fact very tight in the light of demonetization and it is not clear precisely when it will become more readily available. Moreover, there is a growing trend of smaller initial investments in early stage startups rather than big investments in bigger startups. However some of the prominent global Startups such as Uber, Cisco, GramPower and leading private equity firms including Bessemer.

Venture Partners, Seedfund and IvyCap Ventures have confirmed their participation. This is a clear sign that India is on the verge of becoming next big startup destinations. Nevertheless, the culture of entrepreneurship has to be spread across all the states and cities. Every medium and large city of India must be thriving as a startup scene as do some of our leading metros. In order to achieve real success, startups in all areas of business, not just in technology must be encouraged.

REFERENCES

- Graham, Paul (September 2012). Startup Equals Growth, in Graham's Essays on entrepreneurship
- AswathDamodaran, Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges, SSRN Electronic Journal 06/2009; DOI: 10.2139/ssrn.141868
- Au, K., & Kwan, H. K. (2009). Start-up capital and Chinese entrepreneurs: The role of family. *Entrepreneurship Theory and Practice*, 33(4), 889-908.
- The Hindu Business Line, <http://www.thehindubusinessline.com/info-tech/india-lacksenough-angel-investors-to-fund-startups-nasscom/article7817740.ece>, Printable version, Nov 20, 2015 9:50:48 PM.
- Grant Thornton- startups report.
- https://en.wikipedia.org/wiki/Digital_India
- <http://digitalindiainsight.com/what-is-digital-india-campaign/>
- <http://vikaspedia.in/e-governance/digital-india/digital-india>
- <http://pib.nic.in/newsite/PrintRelease.aspx?relid=108926>
- <http://www.cmai.asia/digitalindia/>
- <http://www.firstpost.com/business/pm-kick-off-digital-india-project-today-digital-lockers-village-connectivity-key-focusareas-2321322.html>
- <http://iksa.in/india-ink/digital-india/2782/>
- <http://www.thehindu.com/>
- Asli D., Kunt&Klapper L., Measuring Financial Inclusion, Policy Research Working Paper, 6025, World Bank, Apr. 2012.
- Bihari S.C., Growth through financial inclusion in India, *journal of international business ethics*, vol. 4., 2011.
- Leeladhar, V., Taking Banking Services to the Common Man- Financial Inclusion, RBI Bulletin, January 2006